Prioritizing Medium Term (2003 - 2005) Reforms in the Public Financial Management System

September 2002

Sigma One Corporation

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Reforms in the Public Financial Management System

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September 2002 **Sigma One Corporation**

PRIORITIZING MEDIUM-TERM (2003 – 2005)

REFORMS IN THE PUBLIC FINANCIAL MANAGEMENT SYSTEM

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LIST OF ABBREVIATIONS

ADHA	Additional Duty Hours Allowance
ADMU	Aid & Debt Management Unit
BOG	Bank of Ghana
BPEMS	Budget and Public Expenditure Management Systems
CHRAJ	Commissioner for Human Rights and Administrative Justice
CAGD	Controller & Accountant-General Department
CIAA	Central Internal Audit Agency
CMC	Cash Management Committee
EU	European Union
FAA	Financial Administration Act
FAR	Financial Administration Regulation
GAS	Ghana Audit Service
GOG	Government of Ghana
GPRS	Ghana Poverty Reduction Strategy
HIPC	Highly Indebted Poor Country
MDA	Ministries, Departments and Agencies
MOF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
NDPC	National Development Planning Commission
PFM	Public Financial Management
PUFMARP	Public Financial Management Reform Programme
RAGB	Revenue Agencies Governing Board

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1.0 BACKGROUND

The Minister of Finance established in February 2002 a joint Government-Donor Financial Management Committee, which was assigned the responsibility of reviewing the ongoing public Financial Management Reform Programme (PUFMARP) and other related reform initiatives, and to prepare a revised programme of activities that would more clearly and more cost-effectively address Ghana's priorities in this area. The Action Plan of the Public Financial Management Committee, dated 25th March, 2002 identified a number of current shortcomings within Ghana's Public Financial Management Systems, and proposed some short, medium and long-term action plans to address these. The Action Plan has been endorsed by both Ghanaian and external stakeholders as representing a sound platform for the formulation of an implementation strategy that will be supported by all relevant parties.

However, both the Ministry of Finance and its external partners saw a need to target a smaller number of priority activity areas than was contained in the Action Plan, and also to take into account the concerns of both donors and local agencies as expressed in the course of the recent Multi-Donor Budget Support (MDBS) Mission.

The Ministry of Finance has consequently contracted Consultants to help prioritise the activity areas, define strategic programme objectives for the medium-term; relate actual or planned activities to these objectives; and to suggest mechanisms through which the overall reform programme can be managed; monitored and evaluated.

This report proposes a framework for financial management reform within which, if it is accepted by the Ministry of Finance, more detailed project documents can be formulated over the next three months. It provides broad indications of the expected costs of the major components of the proposed framework, although more analysis and consultations will be required to finalise the resource requirements; to assign responsibilities for implementation and supervision; and to ensure that adequate resources are available to carry through the Plan.

1.1 INTRODUCTION

This main Report describes findings and recommendations in greater detail per activity area.

Four major findings can be discerned as a recurring trend in our review of existing and planned improvements in Public Financial Management:

- The systems as designed are unexceptional and in some cases even very innovative;
- However, the principal user of the financial information that should be produced, MOF, has not played the driver's role that it should have, and the result is that such information as is available does not serve as an effective management tool;
- The human capacity for operating the system(s), from the budget preparation stage through expenditure control in the course of the budget year and ending with accounting reports and audits, is woefully inadequate; and
- A minimum degree of predictability in both resource availability and expenditures is necessary for any budget system to function effectively. This has rarely been the case in Ghana.

Perhaps these same factors explain why the reform effort has become so reliant on developing an integrated, computerized system, BPEMS. In our view, BPEMS is necessary, if only because it can reduce human errors and produce information in a timely manner. But it should and can still serve as an opportunity for a thorough re-examination of the current manual systems and the relationships between the different parts.

Throughout our work, we have tried to focus on changes that have implications for budget management. The essential question that we have assumed that MOF wants answered, is to have a Public Sector Borrowing Requirement estimate which is reliable, in order to carry out its fiscal and monetary policies in an informed manner.

While we allowed our work to be closely guided by MOF's document on its Action Plan, the organisation of our report has followed the sequential logic of the budget process itself. As can be observed from the Executive Summary, we have summarized our main findings and recommendations in a synthesized highlighting the following:

- Budget Preparation and Monitoring Processes (taking note of Poverty Monitoring and Reporting, Payroll Management, and Capital Expenditure/Procurement);
- Cash Monitoring and Management;
- Public Accounting and Reporting;
- Auditing (both Internal and External),

- Revenue Monitoring and Management;
- Reform of the Legislative framework of the Public Financial Administration System;
- BPEMS Systems Development; and
- The role of the Controller and Accountant General's Department.

We consider these as key elements in the public financial management system that require close attention over the medium term, in order to facilitate effective and efficient macro economic management by the Ministry of Finance.

It must be recognised that significant improvements in financial management have already been recorded in the course of 2002, under the Ministry of Finance's Prioritised Short Term Action Plan. These include bringing the National Accounts up to date; improving the accuracy of financial reporting by instituting reconciliation procedures; implementing an interim HIPC/Poverty Tracking and Reporting system; reducing payroll leakages, by undertaking Special Audits; and reviewing and reprogramming the plan for BPEMS implementation. The recommendations contained in this report are designed to build upon and consolidate the gains made so far in addressing the identified shortcomings in Ghana's Public Financial Management Systems.

It is significant to emphasize that some of the more important recommendations can be carried out quickly and need not cost a great deal of money: A review of the operation of the budget item "General Government Services" in order to stop its use as a painless way to absorb variances in budgetary outturns from what was originally planned is a glaring example (although it is accepted that there are instances, for example unanticipated expenditures related to threats to national safety and security, in which the use of such a contingency provision is perfectly legitimate). In general, achieving systematic compliance with the existing rules and regulations would have a larger impact on financial management than all the other measures that can be envisaged.

We are of the view that the Ministry of Finance must consider this attitudinal change as critical to promoting efficient and effective public financial management. Other recommendations, especially on the capacity question, require that Government commits itself to significant policy changes on such matters as pay policy for skills in high demand by the private sector but which are also essential for good performance in the public financial management (PFM) function. In the interim, Government and Development Partners are strongly urged to consider instituting a Fund for Performance Sustainability, to provide for the payment of salary enhancements for those staff whose input is identified as critical to the priority financial management processes, for the three-year period of this Plan.

The salary enhancements are proposed as a means of bridging the wide gap between pay packages in the public and private sectors in present-day Ghana, and thereby stemming the tide of resignations of key personnel, pending a broader pay policy review. Some of the key recommendations made for process enhancement activities within the Controller and Accountant General's Department (Section 2.2.11 of the

Executive Summary, and Section 2.4.2 of the Main Report) have no direct costs allocated to them, as it is our view that these activities require only the elements of incentive and motivation that the proposed Fund will provide.

One related matter, i.e. training for upgrading of skills, is currently conceived as a one-shot affair and is not necessarily linked in time to the functions for which such training is required: just-in-time training and follow up are essential for the benefits of such training to be fully realised. It should also be noted that in the present context of very low pay levels, training provided to key personnel often only benefits those private sector employers, who entice them away from the public sector as soon as they have acquired the additional qualifications that Government has paid for.

The sustainability of any reforms will require that responsibilities be more clearly defined. As a general rule, we recommend that the entities responsible for the execution of the reforms remain what they are (CAGD, Budget Directorate of MOF, Revenue agencies, etc.) but that the task of ensuring coherence, compliance and continuity should lie directly with the Minister of Finance or his/her immediate Deputies. A clear and logical manner would be to separate the planning of financial management (principally MTEF and revenue forecasting) from the control of execution (allocation and releases) and assign responsibility for each to a Deputy Minister. Linked to this should be clear written performance standards and targets, at least for those in management positions within each of the entities, and the enforcement of sanctions for failure to comply with the standards and targets set.

A last remark in this introductory note bears repeating: this report is not to be construed as an occasion for repeating the polemic on PUFMARP/BPEMS. As stated earlier, it is unavoidable that the PFM system evolves in that direction. But it is equally clear that the mechanization/computerization tail should not wag the dog, which is sound management. Our view today is that the added value of the system is not adequately appreciated, either by those who will be called upon to operate it, or those who need its output for sound decision making.

2.0 MAJOR ACTIVITY AREAS

In this section of the Report, we provide details of our major findings, the respective implications and recommendations for effective and efficient public financial management system of Ghana in the key activity areas indicated above.

2.1 BUDGET PREPARATION

Examination of the Budgeting Process

The objectives of Government's budget are:

(a) Provide a framework within which Government can formalize and evaluate financially plans of MDAs.
(b) Enable government to review past performance and set new target on a regular basis.
(c) Involve management at all levels in the preparation of their own detailed plans within the framework of the government's overall objectives so as to foster proper accountability.

Government (Ministry of Finance) prepares annual budgets to achieve the above objectives.

Assessment of the Budget Preparation Process

An assessment of the planning and budgeting systems preceding the MTEF approach, however, revealed a number of limitations including:

(a) Insufficient collaboration between Ministry of Finance, National Development Planning Commission and MDA's.
(b) Weak linkages between planning, budgeting and financing
(d) Preparation of the Recurrent budget on incremental basis
(e) No linkage between Recurrent and Development estimates
(f) General lack of ownership and accountability by MDAs

These factors resulted in a situation where the national budget could well be said to be prepared and owned by the Ministry of Finance solely.

New Basis of Budgeting

To address these weaknesses the MTEF approach was introduced in the year 1999 as the basis of budgeting under the PUFMARP programme. The objective is to "improve the procedure and system of budgeting of public expenditure through a medium term expenditure framework (MTEF) approach, so as to ensure that scarce resources are deployed to achieve Government's objectives in the most effective manner. MTEF requires the preparation of three year rolling budgets based on activities and related outputs which are linked to specific MDA objectives". (*Per MOF Press Release, page 14 of Ghanaian Times dated Friday August 30, 2002).*

Clearly, in terms of process, the strategic planning approach adapted as the basis for the MTEF provides a practical linkage between planning and implementation management. Not only should it help to ensure a realistic budgeting process it also classifies the budget on the basis of outputs and activities and links them to objectives.

The MTEF approach however has difficulties in two main respects:

(a) Workload and level of detail required
The MTEF process is more time consuming and involves greater analysis, which will need some simplification.

(b) Unpredictability of resource flows (lack of guaranteed flow of funds) and the difficulties being experienced by MDAs in prioritising their MTEF activities.

A study recently conducted shows persistent higher budget deficits than projected (the average exposure between 1997 and 2001 was 4.9% as against 1.9% projected).

An analysis showed that these deficits were largely driven by gaps in revenue and not expenditure overruns as commonly thought.

Recommendations

- Information needs assessment ought to be done at different levels, for example at the MDAs, MoF and Parliament in an attempt to reduce the level of detail that flows upwards. For instance the level of detail required could be reduced if outputs become the main building block of the budget rather than activities. Details of activities could then form part of the working papers of the MDAs.

- Continuous training ought to be provided to MDA staff in prioritising outputs and activities in case of revenue shortfalls.

- In the long term, there is the need to examine linkages between GPRS and the MTEF process and to formalise the way in which GPRS accesses the framework of the MTEF process.

It is our understanding that phase 1 of the MTEF process has come to an end. Phase 2 of the process, which is to be funded by the DFID, should start soon if the progress made under phase 1 is to be sustained.

Planning and Budgetary Activities

With the introduction of GPRS in 2001 the year 2002 budget preparation process was marked by good collaboration between finance and planning. The budget process should indeed ensure that a budget intended to depict the goals and aspirations of Government over a defined period is well prepared and guided towards achievement.

An important activity that is now required is to ensure that all MDAs disaggregate their budgets as per the instructions issued by MOF in year 2001, which is yet to be complied with by many MDAs. This is critical to monitoring progress towards achieving the priorities of the GPRS in terms of targeting expenditure at deprived districts and regions.

The MOF has overall responsibility for preparing and controlling the budget and is therefore expected to demonstrate greater involvement and commitment towards these objectives.

The following is a broad summary of the current planning and budgetary activities being undertaken by the Budget division of MOF.

(1) A clear definition of national goals by Cabinet/NDPC/MOF (previously based on vision 2020 now using the GPRS).
(2) Establish broad policies and priorities by MDAs within sectoral ceilings.
(3) Preparation of macro-forecast including determination of the resource envelop; Cabinet approval of ceilings and issuance of budget circulars (guidelines).
(4) Preparation of strategic plans by MDAs and review of MDAs costings by MOF as well as conduct budget hearings.
(5) Preparation of estimates and briefs for Cabinet approval before being placed before Parliament by 30th November.
(6) Final approval by Parliament by 30th March of the budget year.

Issues Arising

(a) Budget cycle ought to begin by end of June each year to enable compilation and approval of the budget before year end. In particular the budget circular (guidelines) including ceilings should be issued not later than 6 months before the end of each financial year (i.e. June) in compliance with the provisions of FAR 1979, LI1234 at section 30.

(b) The preparation of the macro-forecast including the determination of the resource envelope being done currently is not sufficiently informed by analytical input. A formal system would have to be developed which will ensure that the forecast is made by the Budget Division with strong analysis by MOF Policy Analysis Division together with credible inputs from MOF/ADMU, RAGB, BOG and CAGD.

(c) A possible improvement in the budgetary system may be to bring items I and 2, Personnel Emoluments and Administration Expenses respectively into the MTEF process in order to encourage entity managers to benefit from managing the items and allocating whatever savings is made on Service and Investment Expenses.

2.2 BUDGET MANAGEMENT INCLUDING MONITORING AND CONTROL

2.2.1 General Observations/Current Practice

The guiding objective of Government in all its budget implementation activities is to "ensure an orderly and smooth implementation of the budget with sufficient authority to the MDAs to manage their programmes and projects while the MOF maintains oversight responsibility to ensure conformity with the requirement of macro-economic stability".

Towards this end, the Budget Division of MOF relies on the following:

(a) Quarterly Expenditure Ceilings determined in line with financial management programmes agreed with IMF;
(b) Quarterly releases of funds to MDAs via CAGD;
(c) An Allocation Control Register is kept in which funds released to MDAs are entered; and
(d) The use of General Government Service (GGS) provision in the budget to absorb any subsequent adjustments made to the budget in the course of implementation.

It is our view that the existence of the GGS provision in the budget has over the years served to weaken the need to exercise greater and regular control of the budget. Instead of extracting variances from planned activities and seeking explanations to the deviations in a rigorous and comprehensive manner the easier option is usually taken by the use of the GGS provision to absorb all adjustments made to the budget.

The project-monitoring unit of the MOF also submits quarterly reports but appears to cover expenditures incurred mainly, without as much as a comment on the state of projects for instance.

The CAGD headquarters currently prepares and submits monthly accounts to MOF and other stakeholders. It must be noted that a meeting is held to discuss the monthly accounts.

Clearly budgetary management (including monitoring and control) needs to be strengthened.

Control is the practice of measuring the performance of a pre-planned activity at close intervals and comparing the measurement to the plans to ascertain whether the performance is in accordance with the plans and if not to institute measures to bring the activities into line with the plans.

The success of this operation will depend to a large extent on the measurability of the plans, facilities for measurement, the timeliness of measurement and a defined action based on the measurement. Plans may require modification based on the periodic results.

Recommendations
The following procedures for helping to achieve these objectives are proposed:

(a) Operating Performance Control

A **quarterly performance review** will be established between the budgets and actual performance. In this regard a ***Budgetary Control Report*** (BCR1- Appendix 1) will be used to control Revenue and Recurrent Expenditure aspects of the budget.

After the quarterly results have been ascertained, the Budgetary Control Report (BCR1) shall be prepared by comparing actuals with budget figures. Variances shall be extracted by subtracting the actual results from the budget. With regards to recurrent expenditure a positive variance will be that variance that shows an under-spending and a negative one the variance that reveals over-spending. The variances, both positive and negative shall be analysed and explanations provided

The Budgetary Control Report (BCR1) shall be prepared by CAGD for circulation to the stakeholders by 15th April, 15th July, and 15th October.

The fourth quarter comparison will be merged into an annual comparison and this should be ready by 30th March. It must be noted that the quarterly budgets will really be a consolidation of previous quarters and therefore will be comparing the cumulative performance records (year to date) with the budgeted levels. Thus a second quarter control report for example will be comparing actuals and budget for the two quarters (i.e. 1/1-30/6) and not for the second quarter only (i.e. 1/4 - 30/6).

(b) Capital Expenditure Control
The investment in capital assets by Government is rather substantial. It follows therefore that the acquisition/execution of these assets/projects must be rigorously monitored to assure smooth implementation of budgetary objectives for which the investment is being made.

A Budgetary Control Report (BCR2 – Appendix 2) will be used to control the Capital Expenditure Budget.

At the end of every quarter, a Budgetary Control Report (BCR2) analysing capital expenditure shall be prepared by comparing actuals with budget figures and variances determined. Such variances shall be analysed rigorously and explanations provided.

The Budgetary Control Report (BCR2) shall be prepared by CAGD for circulation to the stakeholders by the 15th of the month following that of the quarter i.e. 15th April, 15th July, and 15th October. The fourth quarter comparison will be merged into the annual comparison and this should be ready by 30th March.

Preparation of Reports

The Budgetary Control Reports for Revenue and Recurrent Expenditure as well as Capital Expenditure will initially be filled by the CAGD for distribution to the MDAs for explanations of variances noted and for the MDAs to also report on agreed outputs by identifying how well they are performing in the implementation of their agreed activities.

Further accounting information required by head of MDAs to assist in providing explanation of variances will be provided by the CAGD.

Action Meeting on Quarterly Reports

The Budget Committee based at the MOF and comprising stakeholders like Director of Budget, Controller and Accountant General, BOG Representatives and others will then meet with the MDAs by the end of the first week of the 2nd month after the quarter to discuss variances recorded and recommend steps to eliminate them or where necessary, alter the plans to enable the Government move towards achieving its financial goals.

It is envisaged that the mid year reviews of comparing performances against current year budget will be basis for a formal adjustment of year estimates as part of the annual budget process.

Currently, the Budget division uses the General Government Service (GGS) provision in the budget, a rather omnibus amount, to absorb all adjustments made to the Budget. There is the need to reduce the GGS provision considerably and the provision rather spread over the main budget lines to make for rigorous analysis of the budget from time to time.

BUDGET PREPARATION & MONITORING- Estimated Cost and Indicators

Activity	Estimated Cost	Indicators
Budget Preparation- Basis of Budgeting 1. Two main difficulties associated with MTEF process to be addressed: - Information needs assessment to be done at different levels e.g. MDA, MOF and Parliament in an attempt to reduce the level of detail that flows upwards - Training to be provided for MDA staff in the prioritising of outputs and activities in case of revenue shortfalls.		a) Only relevant information is provided at each of the levels involved in the MTEF process (**from January-May, 2003**). b) Capacity of MDA staff enhanced
2. Phase 2 of the MTEF process to be made to start soon.		c) Progress made under phase 1 to be sustained.
Planning & Budgetary Activities 1. MDAs to disaggregate their budgets in compliance with MOF instructions.		d) MDA budgets disaggregated effective **Year 2003 budget**
2. Budget cycle to start not later than 30th June in compliance with provisions of FAR 1979 LI1234 at section 30.		e) Adequate time allowed for preparation of budget to avoid "fire fighting methods" previously used.
2. Developing formal system to ensure that credible inputs are received from MoF/ADMU, RAGB, BoG and CAGD in the preparation of the macro-forecast including the determination of the resource envelope.		f) A more credible macro-forecast made and resource envelope determined.
3. Items 1 and 2 relating to Personnel Emoluments and Administration expenses to be brought into the MTEF process as an improvement in the budgeting system.		g) Entity Managers to benefit from managing the items and allocating whatever savings made on Services and Investment Expenses.
Budget Monitoring ***General Issues*** 1. Institute comprehensive quarterly reviews of the budget 2. Second quarters review to become basis for a formal adjustment of year estimates as part of the annual budget process. 3. GGS provision used to absorb adjustments to the budget to be reduced and rather spread over the main budget lines.		h) Variable analysis extracted and explained. i) Adjustment to budget done formally after a comprehensive reviewed . j) Provide room for a more comprehensive and rigorous review along budget lines.
TOTAL COST	**Process Improvement**	

2.2.2. POVERTY MONITORING AND REPORTING

Following Government's decision in March 2001 to opt for the Highly Indebted Poor Countries (HIPC) Initiative, and in the interests of enhancing public accountability in the use of HIPC and all other resources, it has become necessary to develop systems to track, monitor and report on Poverty and HIPC related revenues and expenditures. Government has recognised the need for a "bridging" or "interim" system to track present Poverty and HIPC data, while strengthening its overall public expenditure management capacity through implementation of the new Budget and Public Expenditure Management System (BPEMS) and other reform initiatives.

The interim system implemented by Government in mid-2002 relies on the existing budgeting, accounting and reporting systems, with slight modifications to enable the tagging and monitoring of selected items in the budget that have been identified as poverty-reducing, as part of overall budget implementation (the "virtual" poverty fund approach). A Manual is in the process of being finalised, to explain the main accounting principles, regulations and procedures to be adopted for Poverty and HIPC related expenditures, and to ensure consistency in the application of these by all MDAs operating HIPC funds.

The Controller and Accountant General (CAG) has overall responsibility for the Poverty and HIPC accounting system. Based on the Debt Service Release Profile earlier prepared for the year, the Aid and Debt Management Unit (ADMU) of the Ministry of Finance issues monthly authorisations to the CAGD to cause transfer to be made into the HIPC Main Receipts Bank Account in respect of debts due for servicing in the month, but for which reliefs have been granted. 20% of savings for each month are transferred to the HIPC Bank Accounts for Servicing of Domestic Debts, and all other disbursements of HIPC funds are regulated by Special Release**.**

CAGD has modified the existing 15 digit Chart of Accounts, using the last 3 redundant codes to track Poverty and HIPC activities and funds, and HIPC Tracking Software has been developed, to enable the required reporting data to be captured in a comprehensive Monthly HIPC Reporting, which combines 18 separate reports. CAGD sends the Monthly HIPC reporting to the MDAs, who verify the reports and send them back to CAGD for correction where necessary. The 15-day period allowed for preparation of reports after each month-end that is specified in the Manual is considered unrealistic, and may lead to a situation in which information providers work without reference to any deadline at all. A similar comment is made elsewhere in this report, in respect of the reporting period specified in the draft Financial Administration Act, and both should be reviewed.

At present, the system covers only the Accra and Tema Treasuries, which account for about 80% of all expenditure data, but it is intended to extend the system to cover all Treasuries from 2003 onwards, provided that logistical and other constraints can be resolved.

Poverty and HIPC reporting is critical in ensuring that public spending has a significant poverty-reducing impact, from a number of perspectives:

- Development perspective – the need to link the allocation and implementation of publicly-funded expenditures with the formulation of Ghana's Poverty Reduction Strategy (GPRS);
- Fiduciary perspective – assuring Development Partners that the resources they provide under the HIPC Initiative are actually devoted to poverty reduction; and
- Governance perspective – to reassure Ghanaian citizens that debt reduction resources are being used for the purposes intended.

Poverty Monitoring and Reporting - Priority Activities 2003-2005

The priority activities to be undertaken in respect of Poverty and HIPC reporting in this period include the following:

1) ***Continue and Complete Trial Running:*** the "interim" system presently being run on a limited trial basis needs to be continued, at least until the beginning of 2004, in order to institutionalise the regular accurate reporting and regular feedback that are among its main characteristics, before any attempt is made to extend it to the rest of the country.

2) ***Define Additional Workload, Provide Required Resources:*** the need for Poverty and HIPC reporting imposes additional workload on the staff of the CAGD, both at the Head Office level in terms of supervision, report generation, and checking; and also at the level of the participating Treasuries, who are required to undertake reconciliations on a daily and monthly basis. Up to 3 additional staff are likely to be required at the Head Office, with attendant costs of providing offices and other logistics support; while the Treasuries will require the payment of allowances and other incentives to designated key staff.

3) ***Field Studies in Other Countries:*** it has been agreed in principle that field studies should be conducted in some neighbouring countries, to enable those responsible for Poverty and HIPC tracking and reporting, to learn from the experiences of others. These trips will have to be repeated over the plan period, to enable Ghana to acquire a broader and deeper understanding of the challenges faced by others, and to enable Ghana's system to be updated in line with lessons learnt elsewhere.

4) ***Training:*** it will be necessary during the period under review to undertake follow-up training on Poverty and HIPC tracking and reporting, to train staff in using data networks, and to adapt to the operational requirements of BPEMS as it is being introduced.

5) ***Roll-Out to All Treasuries Nationwide:*** it is expected that by the end of 2004, the Poverty and HIPC reporting system will be ready for roll-out to all Treasuries nationwide, using the BPEMS system and network.

Poverty Monitoring and Reporting – Costs and Indicators

Activity	Estimated Cost	Indicators
1. Continue Trial Running	-	a) Submission of monthly reports by CAGD Final Accounts Section, Public Debt & Investment Unit, Chief Cashier's Unit, Accra Treasuries and MDAs within 15 days of each month-end, on at least 3 consecutive occasions
2. Define additional workload and provide resources required	$100,000 per year ($300,000 total for period)	a) Additional staff in place at CAGD and/or compensation agreed for additional workload
3. Conduct field studies in other countries	$50,000	a) Funding secured, study tours undertaken as agreed
4. Training	$100,000	a) Follow-up training completed for all Accra and Tema Treasuries
5. Roll-out to all Treasuries	(included in BPEMS Implementation Budget)	a) 100% Treasury coverage, using BPEMS system and network
TOTAL COST	**$450,000**	

2.2.3 PAYROLL MANAGEMENT

The replacement of Government's current Integrated Personnel and Payroll Database (IPPD) is one of the most critical components of the overall public sector financial management reform process in Ghana. The IPPD is a centralised computer system, which handles payroll and personnel information for most public-sector employees. DFID funding support for the IPPD replacement project from 1998 to 2000 was followed by an independent review, which clearly spelt out both technical and project management weaknesses which need to be addressed in order to bring the project to a successful conclusion. It has been agreed that a Technical Advisor to the IPPD 2 Project Manager will be provided by DFID, to enable him to plan in detail for the testing and deployment of IPPD 2. The Oracle Team working on BPEMS have started working on Quality Assurance, Impact Assessment of IPPD on BPEMS, and User Acceptance Testing activities.

The project approach involves piloting the system in one of the small MDAs, and rolling it out on an MDA by MDA basis as parts of the network become available. The approach seeks to ensure full integration of IPPD 2 and BPEMS, including the use and expansion of the BPEMS wide and local area networks as opposed to the installation of a separate IPPD network, and thereby making the best possible use of scarce IT resources.

The implementation strategy is to roll out the payroll first, followed by the basic human resource requirements, and finally the full human resource capability, including data gathering. It is expected that the new system will go some way to making the public payroll function more secure, by improving controls: reasonablility tests will ensure no duplications of personnel records, and workflows will be audit-trailed. The Ghana Audit Service will have on-line access to the system. Areas in which further benefits may accrue from the new system include the following:

- Clarification of the roles and responsibilities for establishment control and payroll management;

- Strengthening of manual processes and controls, in both payroll and personnel management; and

- Improving the quality of the establishment and payroll data, including strengthening records management skills and controls.

Payroll transactions handled by the IPPD system account for over 40% of all Government expenditure, and for this reason the IPPD system is an essential tool for managing both public sector finances and personnel deployment. While considerable efforts have been made to ensure that the current IPPD system was made Y2K compliant and remained operational, there is a high risk that it will fail catastrophically, since it is open to abuse and is no longer supported by the supplier.

In addition to the high risk of system failure, significant costs are being incurred through the employment of ghost workers, and the payment of incorrect salaries and allowances: it has been estimated that the scale of the wastage may be up to 10% of the total payroll costs, or over 4% of total Government expenditure. Better human resource management through implementation of the enhanced IPPD 2 system will also provide the potential for Government to achieve further savings. Lastly, the project offers the prospect of policy decisions being informed by more timely and accurate information.

Payroll Management – Priority Activities 2003-2007

1) ***Reduce Incidence of Payroll Abuse:*** the initial findings of a Special Audit undertaken since November 2001 suggest that abuse is widespread in a number of areas, including payment of unearned salaries to separated staff (retired, deceased, vacated posts, resigned, etc.); duplicated names on both active payrolls and pension payrolls; and over-aged persons on active payrolls. The arraignment before court of the head of the computer section of CAGD on forgery and theft charges, also suggests the existence of syndicates engaged in systematic payroll abuse. In the section of this report on 'External Audit', recommendations are made for regular certification of monthly payrolls at the entity level, and regular Special Audits of the payroll. In addition, stakeholder consultations should take place on a regular basis to devise mechanisms for ensuring prompt processing of input forms, as a means of stopping the continued payment of salaries to non-existent workers.

2) ***Standardise Payroll Processing Procedures:*** it is imperative that manual processes and controls be strengthened in both payroll and personnel management, to complement the benefits that will be derived from introduction of the IPPD 2 system. This will involve developing uniform guidelines and manuals for processing payroll at the MDAs and the CAGD, and providing training and capacity building where required.

3) ***Complete Implementation of IPPD 2 Project:*** complete preparatory activities, including cleaning of data from IPPD1 system and the appointment of the Technical Advisor, and implement both payroll and human resource management functions in accordance with the final project plan.

4) ***Mitigate Risks:*** activities to be undertaken, to mitigate the risks as presently assessed, will include ensuring that Government successfully negotiates a facilities management contract to ensure the project's long-term sustainability, and establishing close collaboration with BPEMS to synchronise progress with the two projects.

Payroll Management – Costs and Indicators

Activity	Estimated Cost	Indicators
1. Reduce Incidence of Payroll Abuse	$200,000 per year ($600,000 total for plan period)	a) Regular monitoring reports on payroll certification b) Number of names deleted as a result of certification procedures
2. Standardise Payroll Processing Procedures	$250,000	a) Guidelines and Manuals developed b) Training provided for MDAs
3. Complete Implementation of IPPD 2 Project	$5,425,000	a) IPPD1 data cleaned b) Payroll and HR systems rolled out
4. Mitigate Risks		a) Facilities management contract in place
TOTAL COST	**$6,275,000** (excl. Activity 4)	

2.2.4 CAPITAL EXPENDITURE/PROCUREMENT

In the less developed countries of the world, the public procurement sector typically accounts for between 50 and 70 percent of annual imports; in Ghana's case the value of public procurement in 1998 was estimated at between 18 and 25 percent of the country's Gross Domestic Product (GDP), i.e. between $1.4 billion and $1.9 billion. About 80 percent of non-wage Government expenditures are made through procurement processes, and it is clear that any improvements that can be effected in the public procurement system will have a significant and direct beneficial effect on Government expenditure.

Past studies have concluded that the absence of a comprehensive code for the procurement of goods, works and services, as well as for the disposal of assets by Government organisations, seriously limits the economy, efficiency and transparency of public procurement in Ghana. Some of the weaknesses identified as leading to the present unacceptably high levels of losses and leakages include:

- Absence of well-functioning systems for monitoring the conduct of procurement activities and/or tracking and controlling commitments, leading to the creation of large unforeseen Government obligations on a number of occasions;

- Sole-source and alternative methods of procurement (which, for instance bypass the Parliamentary approval requirements[1]) are used more frequently than they should be;

- Procurement of works certification and payment procedures are fraught with excessive bureaucratic hurdles/delays, often leading to increased contract execution times and cost overruns; and

- There is no consistency across agencies in the conduct of procurement; members of the professional procurement class of the public service - the Supply and Materials Management Class (SMMC) - are currently deployed in various Ministries, Departments and Agencies (MDAs) across the country, but have been rendered irrelevant; MDAs use their own rules based on their reading of the multiplicity of circulars issued by the Ministry of Finance (MOF) and various publications by other government agencies, some of which contradict each other and/or contain outdated, unrealistic directives.[2]

In 1999 the Government established a Procurement Policy Oversight Group (PPOG) in the Ministry of Finance to oversee the preparation and implementation of a comprehensive public procurement reform for Ghana, to be financed by an IDA

[1] State Property and Contracts Act, 1960 (CA. 6).

[2] For example, low authorized new capital project and departmental purchase ceilings contained in FAR, 1979 (Sections 45 and 683 respectively) and PNDC Law 245 mandating that all supplies and equipment required for departmental use be obtained by recourse to the Ghana Supply Commission (GSC – now the Ghana Supply Company).

credit. This reform was also endorsed in the 1999 Comprehensive Development Framework (CDF) initiative document for Ghana. The PPOG's members variously represent the Ministries of Finance, Trade and Industry, and Roads and Transport; the Ghana Supply Company; the Controller and Accountant General's Department; the Ghana Audit Service; the World Bank; and the Crown Agents.

The purpose of the public procurement reforms is to streamline the procedures and regulations for procurement of goods, works and services as well as disposal of assets, and establish an effective monitoring system in order to ensure proper utilisation and developmental impact of public resources. In terms of the developmental perspective, the mandate of the planned Public Procurement Board includes the authority to make recommendations for local manufacture of specific items, to replace overseas procurement, where the Board deems it feasible and justified by the quantum of imports.

The reforms include the codification of all existing fragments of laws and circulars into one detailed legislative instrument, the planned Public Procurement Act 2002. Other components include provisions on anti-corruption; the development of guidelines, manuals and standard tender documents; and an extensive programme for building capacity through training at all levels. The role of the planned Public Procurement Board is conceived as including the development of policies, rules and regulations; monitoring and supervision of public procurement; maintaining registers of procurement entities, suppliers, contractors and consultants; and publishing a monthly bulletin containing relevant information on all procurement matters.

Issues arising from the draft legislation fall into two main areas:

Institutional Issues – while the President will appoint the chairperson and other members of the Public Procurement Board, the Board and its supporting Secretariat will report to the Minister of Finance. The Board will be independent of the Executive in financial terms, as it will be provided with funds by Parliament.

Procedural Implications of Reforms – the law will apply to all procurement entities in Ghana, and will include all procurements made with donor funds, thereby creating a single set of procedures that will apply to all purchasing. Tenders will be evaluated, and contracts awarded, by Tender Committees to be established within each procurement entity, whose activities will be supervised by Tender Review Boards at each level of public procurement, in accordance with the thresholds set. The Supply and Materials Management Class will be realigned, through a process that will include skills audits and assessments of training institutions.

Planned activities associated with the enactment and implementation of the draft Bill include

- establishment of Tender Committees in all procurement entities, whose duties will include the review and submission to Ministry of Finance of Annual Procurement Plans based on the approved budget;

- establishment of Procurement Units in those MDAs that do not already have them, to provide technical support to the Tender Committees;

- implementation of a training programme for about 3,600 people at all levels, and an associated publicity campaign; and

- arrangements for monitoring and oversight by the Ministry of Finance, with the participation of the Ghana Audit Service and the planned Central Internal Audit Agency.

Costs and Indicators

Activity Area	Estimated Cost	Indicator/Target
1. Create legal basis for implementing reforms		a) All Standard Documents completed by November 2002 b) Draft legislation approved by Cabinet,, and passes into law by Parliament, by March 2003
2. Establishment of Tender Committees and Preparation of Annual Procurement Plans		a) Tender Committees established in all procurement entities, and Annual Plans for 2003 developed, by June 2003
3. Undertake training for capacity development		a) 3,600 persons trained, and information material disseminated, by December 2003
4. Establish mechanisms for monitoring, oversight and audit		a) MOF, CIAA and GAS work with Public Procurement Board to agree and put in place supervisory and assurance procedures by December 2003
TOTAL COST	**$4,000,000**	

2.3 CASH MONITORING AND MANAGEMENT

Treasury management remains one major weak point in the total public financial management system in Ghana. The following weaknesses have been observed:

- There is little co-ordination between the RAGB, ADMU, BOG and CAGD in collating information about total revenue inflows for specific periods over the Budget Year.
- There is no specific responsibility centre (e.g. A Cash Management Unit) either at MOF, CAGD or BOG for any effective public Cash Monitoring and Management
- Total annual budgeted income is apportioned into four equal quarters of the budget year without due consideration to the observed trend of revenue inflows from the respective sources (i.e. Tax & Non-Tax revenue; Aids, Grants
- Timely reports on Actual Government Inflows/Collections from each revenue source are not readily available from BOG and CAGD to the MOF.
- Just as the case with revenue inflows, total annual budgeted expenditure is apportioned into four equal quarters of the budget year without any major attempt to align the expenditure with the timing of cash inflows.
- Expenditure Authorizations are made with little or no consideration with the total revenue collections for each quarter.
- Timely reports on Actual Government Expenditure for each quarter of the Budget Year are not readily available from BOG and CAGD to the MOF.
- Funds are currently routinely released for Items 1 & 2 without adequate controls.
- Until recently, there appears to be no clear rules and guidelines for opening government accounts at BOG. Efforts are currently way to rectify this missing link in the public financial management system.
- The following weaknesses have also been observed in the current procedures for the release of funds;
    - Quarterly expenditure ceilings for the four budget Items are hardly issued prior to each quarter.
    - Quarterly Expenditure ceilings are not guided by any Updated Cash Projections.
    - Prioritization of budgetary requirements of MDAs is not consistent with quarterly ceilings.
    - The Quarterly ceilings do not necessarily serve as authority for incurring expenditures.
- The Treasuries do not prepare Bank Reconciliation Statements, though they must naturally be expected to do so. Two main factors account for this: no clear definition of the unit responsible for the task of preparing such Statements and the lack of capacity at the Treasuries. The Bank Reconciliation Unit at the Head Office of CAGD that is expected to provide supervisory role over the Treasuries in the task of preparing the Reconciliation Statements is also grossly understaffed and resourced thus limiting its ability to provide any

meaningful support for regular and uninterrupted preparation of Bank Reconciliation Statements on the various government Bank Accounts.

- Bank of Ghana borrows on the domestic market for the government without the prior approval of the latter anytime public revenue exceeds cash inflows.
- The inflow of Donor funds for budget support appears to be the major unreliable revenue source of revenue for several budget years. There are long delays in the disbursement of the donor funds.

Effective Treasury management requires the following major Cash Monitoring activities:

a. Apportionment of the total annual budgeted income over pre-determined periods (e.g. monthly, quarterly, half-yearly) over the budget period. The key basis for this apportionment is the observed trend of revenue inflows from all sources over the immediate past years. The respective trends in Tax and Non-tax Revenue inflows/collections and inflows of aid, grants and loans must guide the development of the Budget for Cash Inflows over shorter periods within the Budget year.
b. Timely reports on Actual government incomes collected for each income source over the predetermined period (e.g. monthly, quarterly, half-yearly) over the budget period.
c. Apportionment of the total annual budgeted public expenditure over pre-determined periods (e.g. monthly, quarterly, half-yearly) over the budget period. The key basis for this apportionment is the observed trend of all expenditure outflows from all sources over the immediate past years.
d. Timely reports on Actual government expenditure for each predetermined period (e.g. monthly, quarterly, half-yearly) over the budget period.
e. Preparation of regular Bank Reconciliation Statements on all government Bank Accounts.

The results from the above activities are expected to provide informed basis for effective Cash Management in the total macro economic management strategies of Ghana.

A detailed Cash Budget for each Quarter in which annual Revenue and Expenditure are appropriately disaggregated into Quarters of the Budget Year could become a major component of the national annual Budget Statement This however need not be a public document- in fact, it is purely an internal management document available to the key stakeholders in the public management system i.e. MOF, CAGD and BOG). If diligently pursued, the Public Cash Budget could serve as a critical tool for effective Treasury Management in the whole Budget and macro economic management system of Ghana. MOF could rely on this Budget management tool to plan borrowing requirements in advance in order to avoid expensive panic financing decisions and dislocations in the economy.

Our observations indicate that currently, none of the key players in the public financial management system (i.e. Ministry of Finance, CAGD and Bank of Ghana) is able to provide an adequate insight into the public cash position over any specific timeframe within the budget period. It is practically impossible for the Ministry of

Finance, which has the constitutional responsibility for macro economic management to have prior knowledge of the country's cash requirement on monthly or quarterly basis as it stands.

This problem appears to account for the situation where without the prior knowledge and authorization of the Ministry of Finance, the Bank of Ghana takes the initiative to contract domestic borrowing any time public expenditure exceeds cash inflows. Whilst this practice solves immediate public liquidity needs, it undermines the macro economic management strategies of Ministry of Finance with the creation of additional public debts.

Recommendations

- The responsibility for Cash Monitoring and Management must be clearly defined. It is our submission that Ministry of Finance has the responsibility to ensure effective public cash monitoring and management.
- We ascertained that a Cash Management Committee has been set to perform the basic Treasury Management functions in the public financial management system. The key responsibility for this Committee is that it must prepare and monitor Annual and Quarterly Cash Plans/Budgets.
- By the end of the month following the end of each quarter, CMC must produce Quarterly Reports to the Minister of Finance indicating the Public Cash Position for each quarter. The CMC must have the capacity to advise the Minister on all public cash requirements.
- There must be unalloyed collaboration between CMC on the one hand and the following government agencies on the other hand in the determination and continuous monitoring of the public Cash inflows:
    - Revenue Agencies Governing Board (RAGB)
    - Aid & Debt Management Unit (ADMU) of the Ministry of Finance
    - CAGD
    - Bank of Ghana, etc.
- Currently, Items 1 and 2, which account for nearly 80% of the total public budget, are released in a routine manner without adequate controls and on pro-rata basis. This practice must be discontinued. All releases for these expenses must be rigorously checked and controlled within the framework of the Quarterly Cash Budgets.
- The current procedures for release of funds needs to be streamlined and a senior management team drawn from the MOF and the CAGD should be established to ensure that:
    - i. Revised quarterly expenditure ceilings for the four budget items are issued prior to each quarter;
    - ii. The quarterly ceilings are guided by updated quarterly cash projections and the prioritization of budgetary requirements of MDAs consistent with monthly cash allocations;
    - iii. The ceilings serve as an authority for incurring expenditures: the CAGD should issue monthly cash release order to the treasuries consistent with quarterly ceilings;

iv. The quarterly ceilings are fully backed by the monthly release; MDAs should be able to receive payments to the extent of ceilings.

- MOF and CAGD should establish clear rules and guidelines for established to limit the number of government accounts at the BOG.
- An inventory of existing government accounts - including MDA accounts with commercial banks - should be completed by end-September 2002, and closure of unnecessary accounts should be competed by end 2002.
- Carry out an inventory of the stock of non-road areas as of end-June 2002 for all MDAs;
- Implement the Payroll Audit Report, establish as baseline for payroll and personnel as of January 2003, and subject PEs to commitment control.
- Introduce a proper system for commitment control for all items of expenditure, starting January 2003 to constrain commitment to amounts consistent with quarterly cash ceilings.
- The practice of using direct debit systems for some expenditure payments should be eliminated.
- Legal provisions that require verification of CAGD should be reconciled with accounts statements provided by the BOG on a monthly basis.
- Improvements are needed to reports produced by ACCPAC, the ACR and HIPC tracking software to correct classification errors, check anomalies, and ensure consistency across reports.

Cash Monitoring and Management – Costs and Indicators

Activity	Estimated Cost	Indicators
1. Institutionalize effective public cash monitoring systems. 2. Set up a Cash Management Committee. 3. Specific rules and guidelines outlined to limit the number of government accounts with BOG.	$50,000	a) A Cash Management Committee (CMC) in place by the close of the third quarter of 2002. b) Members drawn from RAGB, ADMU, CAGD BOG and MOF given specific responsibilities on the CMC. c) Training of CMC members on effective cash management organized by December 2002. d) Rules and guidelines for opening government accounts at BOG established by December 2002. e) Inventory of all existing government accounts completed by September 2002 and all unnecessary accounts closed by December 2002.
4. Effective monitoring of public cash position on annual and quarterly basis. 5. Streamline current release of funds. 6. Prepare quarterly reports on public cash position.	$100,000	a) Annual Cash Budget becomes an integral part of Annual National Budget commencing with the 2003 National Budget. b) Revised quarterly expenditure ceilings for the four main budget items are issued prior to each quarter commencing January 2003 c) Quarterly ceilings are guided by updated quarterly cash projections by the CMC. d) Quarterly Cash Reports are prepared one after the end of each quarter commencing April 2003.
7. Regular reconciliation of all public accounts must be institutionalised.	$250,000	a) Monthly Bank Reconciliation Statements are prepared by the Treasuries commencing January 2003.
TOTAL COST	**$400,000**	

2.4 ACCOUNTING AND REPORTING

This Section discusses our review of the current practices relating to the Accounting and Reporting on Government financial transactions over the budget year.

The following issues relevant to Accounting and Reporting of public financial transactions are highlighted in this section:

- The relevant provisions of the legislation guiding public financial management in Ghana with regards to the Accounting and Reporting of public finances;
- The role and capacity of the Controller & Accountant-General and
- The efforts at reforming the Financial Administration Decree and Financial Administration Regulations.

2.4.1 Accounting and Reporting of Public Financial Transactions

Relevant Legislations

The two main legislations guiding public financial management in Ghana are:

- Financial Administration Decree (FAD) 1979 SMCD221 and
- Financial Administration Regulations (FAR) 1979 LI.1234.

Many of the provisions of the law appear to be outdated.

Government in recognition of this has started the process of revising the law. The process is being funded by the EU and has reached an advance stage of completion.

Three main activities are to be undertaken:

- Revision of the law
- Manual development
- Training of Trainers

Details are discussed in 2.4.3.

Public Accounts & Other Government Accounts
Section 35 of FAD 1979 SMCD221 provides that:
"the documents and records pertaining to public and trust moneys received into, held in, and paid from the Consolidated Fund shall be termed the public accounts and shall be kept by the Controller and Accountant General''.

Monthly Statement of Public Accounts

Section 38(1) also provides that
" when the transactions of each month have been duly recorded in the public accounts, the Controller and Accountant General shall draw up and sign a monthly statement of the public accounts and publish such statement in the Ghana Gazette and that the monthly statement of the public accounts shall consist of:

(a) Statement of the financial assets and liabilities (including contingent liabilities) of the consolidated fund at the close of the month compared with the corresponding figures for the same date in the year previous to the date of the statement.

(b) Statements of receipts into and payments from the consolidated fund for the month and for the financial year up to the end of that month as compared with the budgetary estimates for the year.''

Closure of the Public Accounts

Section 39(1) provides that
"At the close of business of the last working day of each financial year, all treasury cash accounts shall be balanced off and no further cash disbursement may be made against the expenditure authorities of the year" and that

39(2) all subsequent cash transactions shall form part of the public accounts of the new financial year.

39(5) as soon as possible after the end of the financial year the Controller and Accountant General shall inform heads of department of the date of the final closure of the accounts and heads of departments shall ensure that their own accounts are in agreement with the public accounts before the date of the final closure.''

Annual Statement of the Public Accounts

Section 40(1) provides that

"as soon as the public accounts of any financial year have been closed and not later than three months after the end of such financial year, the Controller and Accountant General shall draw up and sign an annual statement of the public accounts with his annual report" and (40)(2) states that Copies of the report and annual statement of the public accounts shall at the same time be sent to the Auditor General and the Chairman of the Public Accounts Committee.

Certification of the Public Accounts

Section 42(2) states that

''When the audit of the annual statements has been completed, the Auditor-General shall verify not **later than three months** upon the receipt thereof, a copy of the statement of financial assets and liabilities signed by the Controller and Accountant General to the effect that the statement and other statements of the public accounts have been examined and that in the opinion of the Auditor-General they give a true and fair view of the financial position of the Consolidated Fund subject to any observations that might be contained in the Auditor General's report on the public accounts for the financial year.''

Periodic and Final Accounts Preparation & Reporting

Findings

(a) Systems of Accounting & Reporting

Without doubt, the Accounting system remains the major quantitative information system in almost every organisation. It provides information for three broad purposes:-

- Internal reporting to managers for use in planning and controlling routine operations.
- Internal reporting to managers for use in making non-routine decisions and in formulating major plans and policies
- External reporting to donors, and other outside parties.

Financial accounting is mainly concerned with the historical, custodial and stewardship aspect of external reporting whereas the distinguishing feature of management accounting - accounting for planning and control - is its emphasis on the first and second purposes. Any delays in the submission of accounting reports stand to defeat the laudable objectives for which Accounting systems are introduced. Timely decision making is lost and it he custodial and stewardship aspect of external reporting to donors for instance is jeopardized.

From the legal provisions, the public financial accounts consist of the following:

(i) Monthly Accounts
(ii) Annual Accounts

A statement of the financial assets and liabilities (including contingent liabilities) i.e. **the balance sheet** and a statement of receipts and payments from the Consolidated Fund - **(Revenue and Expenditure statement)** are required as part of each of these periodic statements.

(b) **Responsibility**

The Controller & Accountant General has overall responsibility for the accurate and timely preparation of the periodic statements (monthly and annual). He needs therefore to keep himself informed of any developments that may tend to delay the preparation of the accounts, for example, late or non-receipt of returns from treasury offices and MDAs.

(c) **Timetable for Reporting**

For accounting reports to serve as an aid to the management function, it is important that they are accurate and timely.

(i) **<u>Monthly Account Preparation and Reporting (Current Position)</u>**

Monthly accounts are now being done within six week deadlines and would appear to suggest an improvement in timeliness of reporting.

In the past, delays in account preparation and reporting were due in part to delays by MDAs and treasury offices in the provision of inputs to CAGD headquarters as a result of the use of manual processes, the lack of adequate trained staff and procedure manuals and works standards. Of concern was the absence of timely remedial actions for non-compliant MDAs and treasury offices.

Matters Arising - Reporting Deadline

Even though there is an improvement in the preparation and reporting of monthly accounts the reporting requirements of the Poverty and HIPC Related Accounting manual at pages 51-52 states that

> "the deadline for submission of monthly report on both GOG and HIPC activities is 15 days after end of the reporting month".

Given current constraints, there is absolute need to reconcile the current period of 6 weeks being taken by the Final Accounts Department of CAGD to complete the accounts of the reporting month and the HIPC reporting requirement of two weeks i.e. 15 days after end of the reporting month.

Ways would have to be found to reduce systematically the time lag in preparation of the monthly reports from 6 weeks to the 2 weeks proposed under HIPC reporting. The provision of adequate numbers of qualified Accounting staff; adequate appropriate equipment; provision of continuous training and a motivated staff would go a long way in contributing towards the enhancement of the process.

A system would also have to be established to monitor delays by MDAs and treasury offices in the provision of inputs to CAGD as well as timely remedial actions for non compliant MDAs and treasury offices.

(ii) **Annual Accounts Preparation and Reporting**

Section 40(1) of the FAD 1979, SMCD221 provides that as soon as the public accounts of any financial year have been closed and **not later than three months after the end of such financial yea**r, the Controller and Accountant General shall draw up and sign the annual statement of the public accounts together with his annual report on the public accounts".

The three (3) month reporting deadline stipulated by the law is endorsed by the Poverty and HIPC related accounting Manual. CAGD headquarters (Final Accounts) is required to prepare the annual financial statement on the Public Accounts and other government accounts which shall include HIPC financed activities. Deadline for submission of report is 3 months after end of the year. (Reference page 52 of manual).

Matters Arising

CAGD was unable to meet this deadline in the preparation and reporting of year 2001 Accounts due largely to a rather poor flow of information between Bank of Ghana (BoG), the Ministry of Finance (MoF) and the Controller & Accountant General's Department (CAGD). There appears not be a consensus amongst these key players as to the date of the final closure of the accounts. It would appear that CAGD chooses a closing date which does not seem to be recognised by both MoF and BoG with the effect that gaps in expenditure incurred exist between these players leading to delays in accounts preparations and reporting at year end.

Recommendation

We would recommend that the CAGD should prepare an analysis of discrepancies between expenditures recorded by the treasury offices and those reported by the BOG on a **monthly basis** (by the 30th of the month following the month of account) with a view to reconciling these accounts.

At year end the CAGD shall in consultation with MOF and BOG set a common date for the final closure of the accounts which must be adhered to by all the key players.

(iii) **Reconciliations**

The Issue of Bank Reconciliation at various Treasury Offices

In the past the reconciliation effort of CAGD was characterised by a quite irregular preparation of bank reconciliation statements and was evidence that the advantages of this management control measure were being grossly ignored.

The Reconciliation Unit of CAGD is basically responsible for reconciling expenditure only for now and covers:

- 13 treasury offices in Accra (responsible for about 80% of Total Government Expenditure) and
- 110 treasury offices countrywide (responsible for about 20% of Total Government Expenditure).

The current status of the reconciliation exercise is as follows:

- 5 Accra treasury offices have been reconciled from January 2002 to June 2002.
- 2 Accra treasury offices to March 2002
- 2 Accra treasury offices to May 2002
- 4 Accra treasury offices just started

The reconciliation exercise is yet to be extended to the existing 110 treasury offices countrywide. The reconciliation of the accounts for the year 2001 (Jan-Dec 2001) was also yet to be done.

The Reconciliation Unit is however grossly understaffed and resourced thus limiting its ability to ensure the regular and uninterrupted preparation of Bank Reconciliation Statements on the numerous government bank accounts. Quite clearly, there is the need for the Reconciliation Unit to be adequately resourced in terms of:

i. Skilled Accountants
ii. IT facilities
iii. Vehicles

Needless we state that reconciliation statements must be prepared for all Government Bank Accounts on a monthly basis.

It is worth noting that the responsibility for preparing reconciliation lies with the treasury offices themselves being the originating source of most of the transactions. Efforts must therefore be made to ensure that they take up this responsibility. The Reconciliation Unit at CAGD Headquarters would then supervise reconciliation work being done at the treasury offices.

<u>Reconciliation of MDA Accounts with those of the Servicing Treasury Offices</u>

The FAD 1979 SMCD 221 at Section 39(5) provides that
"as soon as possible after the end of the financial year the Controller & Accountant General shall inform heads of Departments of the date of final closure of the accounts and heads of departments shall ensure that their own accounts are in agreement with the public accounts before the date of final closure".

Whereas the law appears to be covering year-end activities of departments vis-à-vis the CAGD, it is fair to emphasise that the reconciliation activity should be done as a monthly activity for purposes of effectiveness and timeliness.

Differences noted from the exercise should be isolated and solutions provided to correct same rather speedily. We noted that although formats have been agreed, the monthly MDA Accounts are not being produced and/or reconciled.

The current Departmental accounting service provided by the CAGD includes:

(i) Reviewing all departmental accounting instructions and making recommendations for improvement.
(ii) Developing and installing efficient accounting systems in Government Departments.
(iii) Monitoring and reviewing systems development for efficiency and effectiveness.
(iv) Ensuring compliance with the necessary accounting standards

We recommend that this Department be strengthened and drawing on information from Final Accounts Unit, the Revenue Monitoring Unit and Reconciliation Unit become the focal point for effective reconciliation of monthly and annual accounts prepared by CAGD, which are to be agreed with MDAs.

ACCOUNTING AND REPORTING – Estimated Costs and Indicators

Activity	Estimated Cost	Indicators
1. Completion of revision process of 2 main legislations - FAD & FAR.	Reference item 2.4.3	
2. Monthly Accounts completion date to be harmonized for Public Accounts & Poverty Reports		a) Realistic date set for submission of reports to allow for enforcement (**January 2003**). b) Causes of current delays in accounting production addressed viz: - System to monitor delays by MDAS and Treasury Offices established. - Timely remedial action for non-compliance MDAS and Treasury Offices also established b**y December 2002.**
3. Gaps in expenditure incurred by BoG vis-à-vis expenditure captured by CAGD to be reconciled.		a) Reconciled monthly expenditure accounts of BoG & CAGD - by the **30th of the month** following the month of account - (**January 2003**). b) CAGD, MoF & BoG to set a common date for final closure of the annual accounts - (**December 2002**).
4. Reconciliation Unit of CAGD to speed up reconciliation effort.		a) Backlog of reconciliation work for year 2001 and 2002 brought up to date by (**December 2002**). b) Monthly Bank Reconciliation Statements prepared for all Government Bank Accounts **from January 2002** c) Reconciliation Unit of CAGD adequately resourced in terms of:Skilled Accountants, IT Facilities, Vehicles by end of December 2002. d) Treasuries offices made responsible for preparation for monthly Bank Reconciliation Statements. (from July 2003).
5. Accounts prepared by CAGD to be reconciled with MDA Accounting.		a) Monthly accounts produced by CAGD & MDA (**from December 2002**). b) Departmental Accounting Services Unit of CAGD strengthened to undertake reconciliation work (by December 2002).
TOTAL COST	Process Improvement	

2.4.2 CONTROLLER AND ACCOUNTANT-GENERAL DEPARTMENT

Review of statutory functions and responsibilities of CAGD

The financial administration function of the Government of Ghana (GOG) is regulated by the 1992 Constitution, Financial Administration Decree, 1979 (SMCD 221) and the Financial Administration Regulations, 1979 (L.I. 1234).

SMCD 221 and L. I. 1234 are currently under review for eventual repeal by an Act of Parliament. A Bill to this effect is at an advanced stage of preparation and approval by Parliament.

Functions of CAGD

The main government department responsible for the management of the public financial administration system is the Controller & Accountant-General's Department (CAGD). The Department is headed by the Controller & Accountant-General (CAG) who is the Chief Accounting Officer of the government and reports to the Minister of Finance.

The Department's main function is to ensure public accountability in the total government financial administration system. CAGD is required to be actively involved in the planning, recording and reporting of GOG Revenues and Expenses at regular intervals, which together create the public assets, liabilities and capital.

An efficient and timely execution of the functions of CAGD is therefore critical to providing key financial information to the Minister of Finance as a major input for the macro economic management of Ghana. The CAG, as the Chief Accounting Officer of the government, is required to perform the following functions:

i. Receive all public and trust moneys payable into the Consolidated Fund.
ii. Provide secure custody for all Public and Trust moneys
iii. Make disbursement on behalf of the Government.
iv. Appoint agents to act on it's behalf in the discharge of duties and be accountable to him.
v. Establish Treasury Offices staffed by CAGD personnel, for the receipt, custody and disbursement of public moneys as may be required by the circumstance of public financial business.
vi. Establish on behalf of the Government, such accounts with the Bank of Ghana and its agents, as he deems necessary for the deposit of public trust moneys.
vii. Solely open bank accounts for any Government Department.
viii. Keep, render and publish the Annual Public Accounts of Ghana.
ix. Promote the development and maintenance of efficient and effective accounting systems within all Ministries, Departments and Agencies.

x. Advise the Minister of Finance and the Government on all public accounting matters.

Consequently, the Controller & Accountant-General is required to develop such systems, procedures and processes within the framework of the 1992 Constitution, SMCD 221 and L.I. 1234 to provide timely financial information on the following:

- Total Revenue obtained from all sources viz:
  - Taxes (both direct and indirect)
  - Aid, Grants and Loans
  - Non-Tax Revenue (e.g. dividends from direct government commercial investments, etc.)
- Total Public Expenditure in respect of
  - Personnel Emoluments (Item 1)
  - Travelling and Transport (Item 2)
  - General Expenditure (Item 3)
  - Maintenance, Repairs & Renewals (Item 4)
  - General Government Services
  - Public Debt
  - Development Expenditure
- Public Cash Position at specific dates
- Public Assets

In carrying out these tasks, CAGD has organized its functions into four main Divisions. These are:

i. Administration
ii. Treasuries
iii. Audit & Investigations
iv. Financial Management Services

Each Division is headed by a Deputy Controller. However, at the moment, with the appointment of Mr. John Prempeh as the Controller & Accountant-General, there are only two Deputy Controllers namely Messrs E. A. Ofosuhene and A. A. Appiah. This situation therefore necessitated a reshuffle of the portfolios of top management as follows:

Mr. E. A. Ofosuhene	-	Deputy Controller & Accountant General responsible for Treasuries and Audit & Investigations.
Mr. A. A. Appiah	-	Deputy Controller & Accountant General responsible for Financial Management Services and Staff Training.

In addition to his supervisory role over the two immediate deputies, the Controller & Accountant-General is directly responsible for the Administration Division.

Details of the functions of each Division are shown in Appendix 3.

OBSERVATIONS

We observe the following during our discussions with the CAGD and Ministry of Finance (MOF):

- The joint Government-Donor Financial Management Committee established by the Minister of Finance in February 2002 identified, among other things, a number of shortcomings within the Public Financial Management Systems of Ghana. These include:
  - Weak Budget Formulation and Implementation.
  - Weak monitoring and evaluation of the administration financial resources.
  - Poor data generation and dissemination.
  - Poor flow of information between Bank of Ghana, Ministry of Finance and Controller & Accountant-General Department.
  - Deficiencies in accounting and auditing practices and standards.
  - Weak regulatory structures insufficient to enforce compliance with financial malpractices.
  - Obsolete public financial management laws and regulations.
  - Too many government accounts.
  - Lack of awareness to be accountable for financial responsibilities on the part of Government employees.
- Whilst an organogram has been designed, the full complement of staff is yet to be engaged principally because of the Department's weak positioning in attracting and retaining the requisite skills.
- Requisite Staff recruitment and retention remains the bane of the Department's efforts at service delivery to the government and other stakeholders. The generally poor/uncompetitive service conditions in the Civil Service account for the Department's inability to engage its critical skills in Accountancy and Management Information Systems.
- The combined effects of inadequate office space and modern management information technology appear to have added their toll on the already low staff morale in the Department.
- There appears to be a very clear understanding among the Controller & Accountant-General and his management team of the Department's responsibilities (particularly its additional responsibilities following the adoption of the HIPC initiative by the Ghana government) in the financial management system of the Government of Ghana as outlined in the relevant legislations.
- There is no major expectation gap between MOF and CAGD with respect to the nature and frequency of financial information required by MOF from CAGD.
- The CAGD is actively involved in all the current relevant activities being carried out to improve on the public financial management systems, processes and procedures (e.g. BPEMS, PUFMARP, Repeal of the FAD and FAR, etc.)
- Whilst CAGD appreciates its financial accounting, monitoring and reporting responsibilities, it is significantly handicapped in terms of the relevant human

resource capacity (particularly in such areas as Accountants, IT Specialists, etc.), Vehicles, Office space and state-of-the art information technology (i.e. Computers). Virtually all the Divisions appear understaffed in terms of the required skills and numbers.

The obvious reason for the Department's inability to attract and retain the full complement of its staff requirements is its relatively unattractive service conditions.

Recommendations

- The critical role of CAGD in the public financial management system can better be served if urgent steps are taken to provide attractive compensation packages for key staff of the Department. Competitive remuneration schemes are required to attract and retain professional accountants, information technology experts, etc who may critical skills, knowledge and experience to enhance the work of Department.

- Given its wide coverage all over the country and the need to ensure constant monitoring and control of financial activities in all other MDAs, its is essential that the Department is adequately resourced with motor vehicles and computers over the medium-term.

- There is the urgent need for the training of the Department's key professional and support staff over the medium-term.

Costs and Indicators

Activity	Estimated Cost	Indicators
1. MOF asserting itself in demanding clearly defined information from CAGD noting the frequency		a) Clearly defined Accounting information requirement by MOF communicated to CAGD by December 2002
2. Government committing itself to significant policy change on pay policy for critical skills in Accountancy and Information Technology in CAGD and other MDAs, linked to **PROCESS IMPROVEMENTS.**	$3,000,000	a) Fund for Performance Sustainability (FPS) set up by January 2003. b) Adequate numbers of qualified accounting and I T staff recruited by mid 2003 c) FPS to run for an initial period of three years (2003-2005)
3. CAGD to be resourced in terms of IT and Vehicles	$2,000,000	a) IT facilities and vehicles acquired for CAGD over the medium-term period.
4.Continuous training programme for key staff of CAGD	$200,000	a) Staff training in modern public accounting processes and systems and information technology.
TOTAL	$5,200,000	

2.4.3 REFORM OF FINANCIAL ADMINISTRATION DECREE AND FINANCIAL ADMINISTRATION REGULATIONS

The Financial Administration Decree (FAD) of 1979, and the Financial Administration Regulations (FAR) of the same year that set out the rules governing of the operation of the FAD, were concerned with:

- The management of the Consolidated Fund and the receipt of monies into it;
- Disbursements from the Consolidated Fund;
- Management of Government Stores;
- Government Accounts, and the process by which officials are made accountable;
- Audit of Accounts;
- Statutory Corporations and other Public Institutions; and
- Sanctions applicable in cases of financial maladministration.

The FAD has not been amended since its enactment in 1979 (likewise the FAR that regulates its application), and a large number of shortcomings have been identified in recent years. Among these are the need to rationalise its provisions in accordance with the 1992 Constitution; to incorporate new national priorities arising out of reform initiatives such as decentralisation; and to adjust values and prices stated, to reflect new economic realities.

A draft Financial Administration Bill has been prepared by the Attorney-General's Department, and submitted to the Minister of Finance on 20th June 2002. The Ministry of Finance responded with its comments on 9th August 2002, and it is expected that the Bill will be submitted to Cabinet for approval and forwarding to Parliament by October 2002. A Manual of Instructions (dated October 2001) has been prepared, to provide guidance to officials of Ministries, Departments and Agencies in the performance of the financial management and accounting roles and responsibilities under the proposed new Financial Administration Act (FAA).

The draft FAA places responsibility for both treasury and financial reporting functions within the public sector on the Controller and Accountant General. Concerns have been expressed as to the realism or otherwise of the requirement that the Controller shall submit monthly accounts to the Auditor General and the Minister within fifteen days of each month-end. Heads of Departments are also required to submit annual departmental accounts within three months of each year-end. These appear to be unrelated to past and present performance of the CAGD in submitting monthly accounts so quickly, and of the MDAs in submitting accounts at all. Such a provision risks damaging to the credibility of the Act as a whole. The draft FAA, and its accompanying Manual, also appear to only concern themselves with Ministries, Departments and Agencies, to the exclusion of the Metropolitan, Municipal and District Assemblies.

The acknowledgment of these shortcomings in the draft legislation and Manual may imply some delays in the planned programme of enactment and implementation. However it is the expectation of both Government and its Development Partners that the Bill will be approved by Cabinet, and submitted to Parliament, before the end of 2002.

Priority Activities 2003-2005

Key activities required to ensure the successful application of the FAA and FAR will focus on the following areas:

1) ***Training in FAR:*** the development of training materials and training courses for all persons entrusted with financial management in the government (i.e. all authorising officers, accountants and controllers), and the implementation of these training programmes.

2) ***Enforcement of Sanctions:*** most critical of all to the application of the FAA will be the firm and consistent enforcement of sanctions for non-compliance with its rules. The draft Bill specifies procedures for serving notice to recover money not duly paid over, accounted for, or applied, and failure to respond to such notice may lead to proceedings for recovery. Where an official receives an unlawful payment, or conspires to defraud the Government, he/she is liable on summary conviction to a fine or up to 5 years imprisonment.

Costs and Indicators

Activity	Estimated Cost	Indicators
1. Parliamentary approval of FAA and FAR		a) Publication of Act and Regulations by March 2003
2. Establishment of permanent FAA/FAR Committee or Implementation Task Force		a) Permanent body established, mandate defined and communicated to all MDAs and MMDAs by March 2003
3. Approval of final Manual of Instructions		a) Manual printed and distributed by June 2003
4. Develop training materials and courses in FAR		a) Development work completed by June 2003
5. Train all authorising officers, accountants and controllers		a) Training begins by July 2003, staff trained by December 2005
6. Monitor application of FAR, enforce measures in cases of non-compliance		a) Annual reporting on application of FAR by Committee/Implementation Task Force b) Number of notices served and proceedings initiated
TOTAL COST	**$950,000**	

2.5 AUDITING

2.5.1. Internal Audit

The Internal Audit function within the public service is presently located under the Controller and Accountant General, who the Auditor-General has appointed since 1989 to carry out internal audit in the MDAs and MMDAs on his behalf. CAGD Internal Audit outfits attached to the MDAs in Accra report administratively to the head of their respective MDAs, and functionally to the Director of Audit & Investigations, CAGD. The Regional Internal Auditors, on the other hand, report to the Head Office of CAGD through their respective Regional Directors. Some organisations, such as the three revenue agencies, have their own internal audit units, while the Ghana Health Service (GHS) has also arranged with the CAGD for the latter to cede its internal audit staff to it. In addition to the CAGD Internal Audit Units, the MMDAs employ Local Government Inspectors, who are supposed to conduct internal audit as part of their functions.

Problems are currently manifested in the following key areas:

- The present organisational placement raises issues of independence and objectivity – the internal auditor is expected to review the work of the CAGD, and to the extent that he/she reports to the CAGD, independence and objectivity may be impaired or compromised. Both the legal basis for the transfer of this function, from the Audit Service to the CAGD, and the scope and objective of internal auditing, are inadequately legislated.

- Deficiencies in the scope and conduct of internal auditing, such as absence of job descriptions and specifications, absence of an internal audit manual, failure by audit staff to use an audit programme, variances in the frequency and content of audit reports and excessive focus on pre-auditing, all suggest that supervision and monitoring by the headquarters of CAGD is inadequate.

- These and other shortcomings in the working of the public sector internal audit function, prevent Government from realising the potential benefits of this function, which include its use as a tool for evaluating performance and compliance, identifying weaknesses, and proposing corrective measures.

A scoping study, commissioned by the Ministry of Finance with funding support from the Delegation of the European Commission in Ghana, proposes that internal control functions in the MDAs and MMDAs be structured on the following lines:

- ➢ In line with current moves to transfer budgetary authority and expenditure control to the MDAs and MMDAs, each MDA and MMDA should have its own internal audit unit, as opposed to the current system where the function is largely performed by staff of the CAGD.

- Within each MDA or MMDA, the Head of the Internal Audit Unit should be responsible to an individual with sufficient authority to ensure the broadest internal audit coverage, adequate consideration of reports, and appropriate action on recommendations.

- There should be an Apex/Oversight body at the national level, to be known as the Central Internal Audit Agency (CIAA), whose functions would include planning and coordination; quality assurance and training; and monitoring and evaluation of activities of all Internal Audit Units.

The Ministry of Finance has accepted the recommendations of the scoping study, and pre-implementation activities, including finalisation of the draft CIAA Bill, are currently underway. It is expected that the Bill will have been enacted by early 2003. Key issues that are yet to be fully resolved include:

- Whether the staff of the new Internal Audit Units in the MDAs and MMDAs will be employed by the MDAs and MMDAs, or by the new Agency;
- Whether the Office of the President, or the Ministry of Finance, would be the most appropriate location for the CIAA in the Government structure, given the Agency's need for appropriate independence and authority, or whether it should be free of any direction or control whatsoever; and
- How to ensure effective Internal Auditing in the short term, given that the CIAA is unlikely to be operational until 2004 at the earliest.

Internal Audit – Priority Activities 2003-2005

In order to achieve its vision of developing and Internal Audit Agency that will enhance efficiency, accountability and transparency in the management of public sector resources, Government will have to ensure that the following activities are carried out:

1) ***Establish new Apex/Oversight Body:*** decisions are required on a number of key issues (included those on which the FAD & FAR Review Committee disagreed with the recommendations of the consultants undertaking the scoping study), in order that the CIAA Bill can be enacted by Parliament.

2) ***Establish Audit Committees:*** each MDA or MMDA should have an Audit Report Implementation Committee, which should approve annual Internal Audit programmes of work, as well as reviewing the findings of Internal Audit reports and management's responses to them.

3) ***Establish Central Internal Audit Agency Secretariat:*** appointment of a Director-General of the CIAA is key to implementation of the transitional activities, together with recruitment of Secretariat staff and the provision of logistics required.

4) ***Recruit New Internal Audit Staff and Implement Training Plan:*** an estimated additional 230 Internal Audit staff will be required for the MDAs and MMDAs, and

training will have to be provided both for these and for retained staff, including building capacity in performance auditing and computer aided auditing.

Internal Audit – Costs and Indicators

Activity	Estimated Cost	Indicators
1. Establishment of new Apex/Oversight Body		a) Parliamentary approval of CIAA Bill by June 2003
2. Establishment of Audit Committees in all MDAs and MMDAs		a) Annual Internal Audit programmes for 2004 agreed by December 2003
3. Establishment of CIAA Secretariat		a) Appointment of Director-General and recruitment of core Secretariat staff by June 2004
4. Recruitment of new Internal Audit staff for MDAs and MMDAs, implementation of Training Plan		a) Recruitment of 230 new staff and implementation of training plan completed by December 2005
TOTAL COST	**$2,500,000**	

2.5.2. External Audit – Ghana Audit Service (GAS)

Before Ghana's independence, the personnel of the Audit Department of this country was recruited by the Colonial Office in London, effectively creating an independent service whose report was submitted to the Colonial Office through the Director-General of Audit. After 1957, the department's independence was occasionally usurped through political interference and official control. In order to remove the department from this control, the 1969 Constitution established the Audit Service, whose responsibilities cover not only central government auditing, but also the auditing of statutory boards, corporations, and cooperatives. Successive Decrees and enactments, including the 1992 Constitution and the Audit Service Act 2000 (Act 584), have sought to entrench the financial and administrative independence of the Ghana Audit Service.

Since September 2000, the GAS has received capacity building support in the form of Technical Assistance; Computers; and Human Resource Development, i.e. training in Enhanced Financial Auditing, Information Technology, and Performance Auditing. By June 2003, it is expected that 90 staff will have benefited from this training, of which about 18 who form the core IT group will also have been exposed to the new BPEMS system. The first-ever Performance Audit report has been prepared, and is awaiting submission to Parliament. However the period within which the GAS is Constitutionally required to submit its annual reports has been shortened, from 12 months to 6 months, under the 1992 Constitution. A further constraint is the high staff turnover rate, with the newly trained staff being particularly sought-after, by both private- and other public-sector organisations.

It is acknowledged that while the workload of the GAS has steadily increased over the years since its creation, both in volume and in complexity, its capacity to deliver its mandate has steadily declined. Reasons for the increasing capacity gap include manpower shortfalls due to the relative unattractiveness of the reward structure; Government's unwillingness to allocate the necessary level of operational funding; the multiplication of audit workload due to the expansion of the school system and the new local government system; and the changing technology landscape in recent years.

Under the PUFMARP initiative, GAS has been identified as requiring institutional strengthening and process reengineering, to enable it to perform its roles and responsibilities effectively. While the importance of a well-functioning Supreme Audit Institution to check the use of public funds is widely recognised, financial and administrative independence for the GAS exist more in principle than in practice, with consequent adverse effects on its efficiency. However it must also be recognised that the GAS has not always made the most effective use even of the limited budgetary allocations it has received: its staff, particularly at the district level, often find their objectivity compromised by their dependence on the Assemblies and other bodies that they are responsible for auditing, and GAS staff are widely thought to lack motivation where their national responsibilities are concerned.

External Audit – GAS – Key Issues and Priorities 2003-2005

The Ghana Audit Service has already undertaken a series of institutional capacity building projects to transform its administrative and operational machinery, including the support under PUFMARP referred to above. The Service is also currently engaged in preparing a Corporate Strategic Plan, with consultancy input. It faces the challenge of demonstrating to Government the tangible benefits of its activities in terms of savings achieved, in order to encourage the Executive to approve the needed increases in resource allocations, while at the same time introducing a new service- and performance-oriented culture internally. Key issues and priorities identified for the period 2003-2005 include:

1) ***Checking Payroll Leakages:*** already, phase one of the Special Audit of Government's payroll being undertaken by the GAS has enabled Government to save over ¢6 billion (of which over ¢3 billion, or about $370,000, has already been recovered and banked) through detection of over 3,200 'ghosts' on the active payroll. This compares with a cost of about ¢0.5 billion for phases one and two of the exercise. While some of the deficiencies identified in the present payroll system (pension payments to coded names, over-age pensions on payroll) are likely to be addressed by software enhancements under the IPPD 2 project, the GAS could work with the CAGD and the Ministry of Finance to devise and monitor mechanisms for ensuring regular and timely certification of the monthly payroll at the entity level, using the powers already conferred on the Auditor-General to surcharge and sanction managers who fail in the performance of these responsibilities.

2) ***Upgrading Delivery of Audit Services:*** increasing audit coverage, and producing regular timely and accessible reports as mandated by the Constitution and the Audit Service Act are key objectives for the plan period. This will require the adoption of new methodologies, uniform audit procedures, Quality Control standards, and staff performance assessment systems.

3) ***Human Resource Management:*** introducing new human resource policies that promote the recruitment, training, motivation and retention of high calibre staff is key to ensuring optimal performance of GAS staff. GAS management will have to work with the Ministry of Finance and Development Partners to formulate schemes that will target staff with key skills or key functions, and that will include a combination of salary enhancements and performance monitoring.

4) ***The Role of Parliament:*** the GAS depends largely on Parliament to assure the adequacy of its inputs (through the Budget Committee, which has the power to assure the financial independence of the GAS) and the effectiveness of its outputs, through the ability of the Public Accounts Committee to act upon its reports in a timely manner. Development Partners will be encouraged to target resources at enhancing the effectiveness of the GAS-Parliament interface, through the work of these two key Committees.

5) ***Structural Independence of GAS:*** significantly higher levels of investment will be required in office and residential accommodation, among others, to assure the structural independence of the GAS from the very institutions it is mandated to report on, such as MDAs and MMDAs.

External Audit – GAS – Costs and Indicators

Activity	**Estimated Cost**	**Indicators**
1. Checking Payroll Leakages	$1,200,000	a) Quarterly Special Audits undertaken on selected areas of the payroll b) Number of entity managers surcharged and sanctioned
2. Upgrading Delivery of Audit Services	$500,000	a) Uniform audit systems documented and implemented b) Staff performance assessment system developed and implemented
3. Human Resource Management	$500,000	a) Job descriptions and performance standards developed for key staff members, linked to incentive system
4. The Role of Parliament		a) % reduction in Budget proposed: approved below 30% b) Public Accounts Committee makes timely recommendations to Executive in response to GAS Annual Reports
5. Structural Independence of Ghana Audit Service	$2,000,000	a) New Central Government Audit Department building b) 25 new District Audit offices opened
TOTAL COST	**$4,200,000**	

2.6. REVENUE AGENCIES GOVERNING BOARD REFORM PROGRAMME

The RAGB reform programme has three strategic objectives:

- To increase government's revenue collections through widening the tax base; improving tax compliance by reducing the taxpayers' transaction cost; in the process improving audit quality and collection; and reducing revenue collection costs.
- To improve the operations of the three revenue agencies through information sharing on taxpayers, enhancing the quality of services to taxpayers, and recruiting and retaining appropriately qualified staff.
- To bring about organisational changes necessary to strengthen management's capacity to supervise and coordinate the revenue agencies.

Parliament passed a law to create the Revenue Agencies Governing Board (RAGB) in December 1998, but the Chairman and Executive Secretary of the RAGB were not appointed until August 2001. No staff have yet been recruited for the Secretariat of the RAGB, and the Executive Secretary is at present solely responsible for all functions of the RAGB. A 3% retention on collections was announced in the 2002 Budget Statement, to provide an incentive structure for the three agencies, and to enable the Board to meet its operational expenses.

The Internal Revenue Service (IRS) suffers from a very low level of automation, and a $100,000 facility authorised in March 2002 for the purchase of a limited number of computers is yet to be released. The Customs, Excise and Preventive Service (CEPS) operates the ASYCUDA system, but without any linkage between the ports of entry and Head Office. The VAT Service has been supported by the VAT Information Processing System (VIPS) since VAT was first implemented in 1995. The three agencies have very different equipment and strategies, and are considering different development options.

The three agencies have, since the inception of the RAGB, prepared and submitted Monthly Performance Flash Reports. These reports detail Actual Collections and Expenditure for the month and for the year to date, as well as numbers of staff at post, together with summaries of current issues and related recommendations. The agencies are seeking to develop their capacities for scientific revenue forecasting, with an initial batch of 15 personnel from the three agencies and the Bank of Ghana recently being trained, supported by USAID and Duke University.

These findings suggest that

1) The RAGB has a secure funding source for its operational expenses, but does not yet have the staff in place to carry out its mandate; and

2) RAGB receives information from the three revenue agencies on current Collections and Expenditure on a regular and timely basis, but presently

makes only a very limited input to the Budget preparation process, due to lack of scientific revenue forecasting capacity in the agencies and the Secretariat.

Key current and prospective initiatives under the RAGB reform programme include:

- **Establishment of the Large Taxpayer Unit (LTU).** At present, this is being operated as two separate units within the IRS and the VAT Service, and will be integrated into a single unit, promoting a 'one-stop-shop' approach for the about 250 large taxpayers that generate between 50 and 60% of all tax revenues.

- **Implementation of the Taxpayer Identification Number (TIN),** first introduced in 1998. The three revenue agencies, together with the Registrar-General's Department and the Controller and Accountant General's Department (CAGD), are all required to use TIN as the sole identification number.

- The **National Tax Audit Bureau**, presently located at the IRS, is mandated to undertake investigations referred to it by the Ministry of Finance and the RAGB, and also to initiate independent investigations.

- **Integration of the three revenue agencies** is a key long-term goal of the RAGB reform programme. This will entail moving away from domestic tax administration organised by tax type, and towards a functional organisation, with district offices holding information about all the taxpayer's liabilities at a single location.

- **Staffing and operationalising the RAGB Secretariat** is seen as crucial to the achievement of all other objectives. Its envisaged responsibilities will include development of strategies, procedures and monitoring, tax revenue forecasting, fraud investigations, internal audit, and information systems.

Priority Activities 2003-2005

In order to achieve its strategic objectives, prioritised activities under the RAGB reform programme for the period 2003-2005 will include:

1) ***Skills acquisition in revenue forecasting:*** further training is required, to broaden and deepen the steps already taken to develop revenue forecasting capacity in all three agencies, as a key input to improved management of Government's Public Sector Borrowing Requirement.

2) ***Hiring and accommodating staff for the LTU:*** the new unit will have to be fully equipped to undertake its assigned function, which will involve recruitment and re-training of staff; provision of office accommodation, equipment and vehicles; and development of a computer system to administer all taxes.

3) ***Implementing the TIN:*** this will require a taxpayers' education programme on TIN compliance; an awareness communication programme within the agencies;

upgrading of equipment at the TIN Computer Centre and establishment of networking with the field offices; and legislation to enable the three agencies, the Registrar General's Department and the CAGD to all operate with the TIN only and to share information.

4) ***Strengthening the National Tax Audit Bureau:*** in order to effectively carry out its assigned internal audit and tax fraud investigation functions, an incentive structure for staff of the Bureau will have to be developed and implemented.

5) ***Integrating the Three Revenue Agencies:*** following the development of a strategic plan for integration, legislation will have to be enacted, and subsequently the integration of field offices, of programmes and of procedures, as well as implementation of a tax computer system.

6) ***Capacitating the RAGB Secretariat:*** Government and Ministry of Finance are expected to show their commitment by adequately staffing, equipping and accommodating the Secretariat during this period. It is expected that the Financial Information Centre of the Ministry, in which a floor has been reserved for RAGB, will be completed during this period.

Costs and Indicators

Activity	**Estimated Cost**	**Indicators**
1. Skills acquisition in revenue forecasting	$200,000 (including computer equipment)	a) Number of staff trained b) RAGB forecasts used in budget preparation from 2004 Budget
2. Staffing and Accommodating the LTU	$500,000	a) LTU operational in 2003 b) 20% increase in number of large taxpayers by January 2005
3. Implementing the TIN	$250,000	a) TIN mandatory for all agencies in daily operations by end 2004
4. Strengthening the National Tax Audit Bureau		
5. Integrating the Three Revenue Agencies – Preparatory Activities	$250,000	a) Strategic plan developed by end 2003 b) Enactment of enabling legislation by end 2005
6. Capacitating the RAGB Secretariat	$250,000 for equipment (accommodation costs included in PUFMARP budget; staff expenses in GoG Budget)	a) Full complement of staff in place by end 2003 b) Move to permanent accommodation by end 2005
TOTAL COST	**$1,450,000**	

2.7. SYSTEMS DEVELOPMENT – BUDGET AND PUBLIC EXPENDITURE MANAGEMENT SYSTEM (BPEMS)

With assistance from the World Bank, the Government of Ghana has since 1997 implemented a programme aimed at developing an integrated public financial management system, of which the cornerstone will be a common, reliable and unified database of all financial data, the Budget and Public Expenditure Management System (BPEMS). Under BPEMS the three different functions of budget preparation, budget implementation and accounting will be integrated into a uniform IT system, providing online access to and information about all relevant budgetary processes.

The BPEMS solution consists of central financial management application software and database software, operating on central data centre hardware; remote local area networks at each MDA site; and a Wide Area Network (WAN) that links all sites to form a government-wide network throughout the country.

The BPEMS solution aims at delivering many benefits to government, including

- Timely, accurate and complete financial information on actual expenditures and budget comparisons a monthly basis;
- The ability to disaggregate data to permit better tracking of expenditures by economic and functional classifications;
- Linkage with other key legacy financial, cash management, debt and human resource systems that are used currently to allocate and manage resources; and
- Improved financial controls and increased overall transparency of government planning and spending performance.

A recent review of BPEMS indicates that the Oracle Financials applications will provide government with the functionality it requires, and despite some concerns over the WAN's robustness in the event of outage or natural disaster, in general terms the architecture is expected to accommodate the government's financial system needs well into the future.

The implementation of BPEMS has encountered numerous difficulties and suffered a series of setbacks that have included frequent changes of key project personnel, the withdrawal of the applications developer from the project for 16 months, and a change of government. However the political support for BPEMS at the Ministerial level now appears to be high, and the Controller and Accountant General has recently been designated as the accountable project owner and champion for the duration of the project implementation phase.

The BPEMS system represents new and complex technology that in many respects exceeds the current capacity of government to maintain and operate it. It therefore poses a significant challenge, in terms of the need to develop the necessary skill sets in the Ministry of Finance, the Controller and Accountant General's Department, and the Ministries Departments and Agencies, in order to be able to operate and maintain the system when it is completed.

BPEMS will allow the system's managers to impose a passive (because automated) constraint on the operators, instead of enforcing infractions of the existing (and mostly satisfactory) rules in a positive way. It therefore offers government the opportunity to remedy many of the present deficiencies in the public financial management system that arise from a lack of compliance with stated rules and procedures, by largely automating budget and financial management controls.

But there are significant risks inherent in any such undertaking, not the least of which is the resistance that is to be expected to such fundamental change, whether because change will interfere with established "spheres of influence", or simply out of the innate conservatism of any bureaucracy. Even in more supportive environments, a 1995 study suggests average cost overruns of 178% and average time overruns of 230%, and extensive cut-backs in planned functionality, in the implementation of large IT-based systems among large entities.

In the present case, BPEMS' scope has had to be substantially reduced due to significant cost overruns. Projections of expenditure for the period up to December 2002 reflect an increase of $6.3 million over the original allocation of $20.9 million, arising from increased costs and foreign exchange losses. Additional costs expected in order to complete the implementation of Phase I (67 sites) over the period 2003 and 2004 are expected to increase the funding gap to about $14.8 million. In addition to the investment costs, GoG is expected to incur annual maintenance and other running costs of about $2.0 million.

In order to enhance the prospects for a successful implementation of BPEMS, the BPEMS review suggests that government must seriously address five categories of fundamental issues:

- A supportive institutional, governance and managerial environment;
- An appropriate scoped project with the right functionality;
- A realistic project implementation schedule;
- A well-qualified and fully resourced project implementation team; and
- The capacity within GoG to maintain and operate the systems once implemented.

Current and planned activities under each of these categories are as follows:

Project Environment
While Ministers and Donors are supportive, there is less support within the government bureaucracy. In addition to designating the Controller and Accountant General as the project owner, and clarifying reporting relationships, the BPEMS project team will formulate and implement a strong communications and change management campaign aimed at the MDAs.

Project Scope and Functionality
The Controller and Accountant General will review financial processes in respect of their efficiency and effectiveness, and will ensure that the necessary interfaces are established with existing systems such as the payroll system, while assuming responsibility for the timely completion of Phase I.

Implementation Schedule
The Controller and Accountant General will prepare a comprehensive project plan. It is expected that by April 2003, BPEMS will be implemented in the CAGD and the MOF accounting unit, as well as the Ministries of Education, Health and Local Government. Further extension in the period up to December 2005 will be based on the experience in the first MDAs, and reflected in the new project plan.

Project Implementation Team
Recommendations made in the BPEMS review for strengthening the project implementation team will be considered by the Ministry, and the necessary steps will be taken to build capacity to the required level by June 2003.

GOG Capacity to Maintain and Operate BPEMS
New systems divisions will be established, and will be appropriately staffed and resourced, in the CAGD and the Budget Division of the Ministry of Finance, to support BPEMS implementation and to sustain its operations in the long term. A decision will also be made on the preferred approach to Facilities Management arrangements.

Costs and Indicators

Activity Area	Estimated Cost	Indicator/Target
1. Project Environment		a) CAG designated as project owner, reporting structures defined by December 2002 b) Communications and change management campaign implemented in Q1-Q2 2003
2. Project Scope and Functionality		a) CAG review of financial processes, and plan for interfaces with existing systems, completed by June 2003
3. Implementation Scheduling		a) Plan for implementation in remaining Phase I sites will be finalised by June 2003, after completion of first MDAs
4. Project Implementation Team		a) Decision on Team composition taken and implemented by June 2003
4. GoG Capacity to Maintain and Operate BPEMS		a) New systems divisions established and staffed in CAGD, Budget Division of MOF by June 2003 b) Data Centre completed, and Facilities Management contract awarded by December 2003
TOTAL COST	**$14,840,000**	